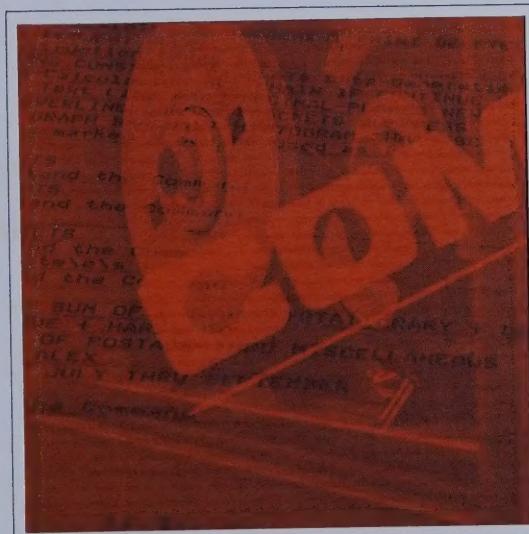


1978 Annual Report



COMTECH
GROUP INTERNATIONAL LIMITED

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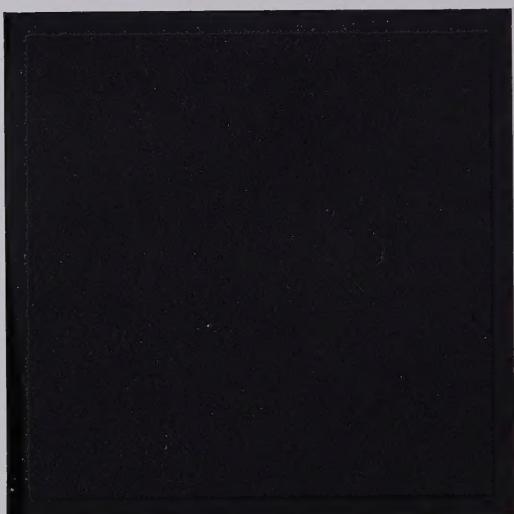
Directors

Sinclair M. Stevens
Chairman
Donald M. McPhail
President
J. Heath Halliday
Vice President
John D. Morand
Treasurer

Michel Bourbonnais
Robert P. Curl
James E. Houston
William G. Hutchison
Edward K. Loyst

Annual General Meeting

The 1978 Annual and General Meeting of Shareholders of Comtech Group International Limited will be held in The Canadiana Room of the Prince Hotel at 3:30 p.m. on November 9, 1978.



**Comtech Group
International Limited**
Suite 250
5 Fairview Mall Drive
Willowdale, Ont. M2J 2Z1
Area Code 416-492-1480
Telex 06 966748

**Comtech Research
Centre,**
Co. Cork Ireland,
Cork (021) 821432
Telex 32072

Montreal 514-382-3330
Toronto 416-492-1480
Cambridge 519-653-7331
Oshawa 416-579-4441
Quebec City 418-524-8478
Winnipeg 204-775-2449

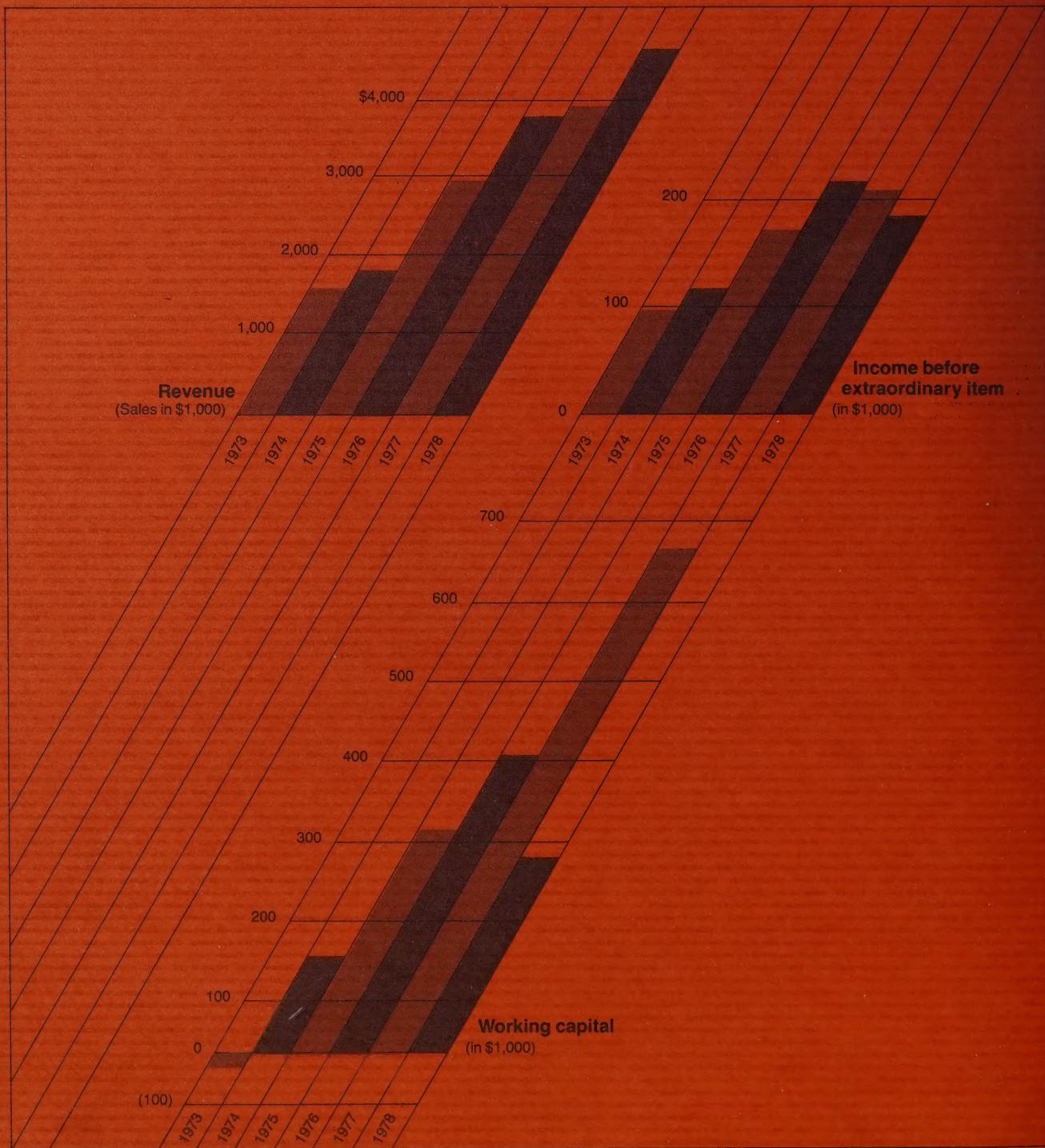
COMTECH
GROUP INTERNATIONAL LIMITED

Telaccount Inc.
Suite 430
5 Fairview Mall Drive
Willowdale, Ont.
Area Code 416-492-0277
Telex 06966748

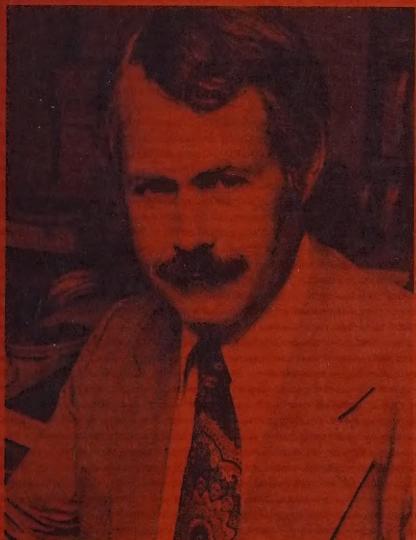
Toronto 416-259-7684
Montreal 514-879-1034
Ottawa 613-729-6169
Vancouver 604-689-3455

**Telaccount
Inc.**

	1978	1977	1976	1975	1974	1973
Revenue	4,364,916	3,735,449	3,726,085	2,913,715	1,798,614	1,509,342
Income before extraordinary item	190,255	201,583	216,319	171,676	117,297	96,707
Working capital	279,311	668,515	415,557	326,509	155,033	(4,035)



President's Report



Dear Shareholder:

The company has completed a year in which we have laid the foundations for substantial future growth. Our revenues for the year were \$4,364,916 and our net income was \$190,255.

Financial Highlights

In relation to Comtech's history, our capital expenditures of \$1,063,126 have been substantially ahead of any prior year, and illustrate our commitment to expanded forms of service.

1. We made investments in fixed assets of \$467,163 in land, buildings and computer equipment. This includes the initial set-up of our development operations in Ireland, where we are manufacturing interactive computer software.
2. We invested \$421,886 in package programs. This investment was in our traditional line of products, as well as our new offerings in the interactive mini-computer field.
3. Through our added investment of \$174,077 in Selkirk Securities Limited, in which we own 42.9%, we participate in the ownership of 31.3% of the outstanding common shares of Dataline Systems Limited and are participating in an investment company in our industry.
4. We continued our policy of paying dividends on our common stock and maintained our preferred shares in a current position.

Operational Highlights

1. The company has proceeded on its conversion to an IBM 370-138 to replace our five Honeywell computers and to add future growth capacity. During the year we completed the conversion of three of our major products. We anticipate the remainder of the conversion will be complete, with all of our branches operationally ready, in March of 1979. Our success to date has improved the reliability and flexibility of our existing services. With total completion of the conversion it will also result in a reduction in our operating costs.
2. During the year our Irish Research and Development Centre came into being and reached a high level of productivity by mid-year. Our first major interactive computer products were delivered to Canada in the fourth quarter. One of the products is a large scale sales system which is highlighted elsewhere in this Annual Report. These products all allow our clients to deal interactively with our computer systems. Through this technology, a client can use all of our major services directly, from their own premises.

During the year we completed the installation of additional computer equipment for our interactive services, in both the Montreal and Winnipeg areas, and are now in a position to service all of our accounts and new prospects from Quebec through Manitoba.

3. In the last quarter we acquired the assets of Telaccount Limited, which increases our overall product range in the financial accounting area and adds 376 customers. We have highlighted this new service area elsewhere in this report.

Telaccount adds substantially to Comtech's volumes and capability, and brings to our company a great deal of additional expertise in the application of computers to the field of general accounting. With Telaccount we have also added two additional service locations—Ottawa and Vancouver—which provide us with more complete geographic distribution of our full product line. The Telaccount product was a pioneer in the application of on-line computer technology to general accounting. Any business in Canada has been able to access Telaccount's large-scale accounting and management reporting systems, using a standard Touchtone™ telephone. This system has brought the benefit of large-scale computer systems to small to medium sized businesses across Canada, in a direct and simple manner.

This has been a year of substantial change in the company and has laid the foundation for our more rapid growth in the computer services field. Our industry, throughout North America, has received broad acceptance, and is growing at a rate which exceeds the industry's own forecasts. With our development programs over the past year, we have provided a strong base for Comtech to participate as a leader in the dramatic growth of our overall industry.

I would like to express my thanks to all of the personnel in Comtech who have participated in the development of our new technology, while at the same time providing high levels of service to all of our clients.

Yours very truly,

1/Telaccounting

During 1978 Comtech acquired Telaccounting as a product. Telaccount Inc. is a national organization specializing in computerized accounting services using the office telephone for data input.

Telaccount is a computer service bureau staffed by accounting people; its customers have minimum involvement in data processing. Anyone who has an accounting and/or reporting requirement, and can justify an expenditure of as little as \$200.00 per month, can be a Telaccount customer.

The acquisition of Telaccount not only broadens Comtech's already wide range of services, and customer base, it opens up an entirely new marketplace.

Telaccount services are currently being provided to a large variety of business firms, including manufacturers, wholesalers, bookkeeping services, construction firms, chartered accountants, golf courses, hotels, property management, insurance agents, holding companies, leasing companies, nursing homes, service companies, office supply firms, restaurant chains, retailers, and warehousing firms.

Key to the system is the ordinary Touchtone™ telephone through which a bookkeeper keys in all financial data much as she would record transactions in journals or ledgers. Customers in areas which do not have Touchtone™ telephone service are provided with a data entry terminal which is hooked up to the dial telephone.

The data which is transmitted goes to a data collection point from where it's transmitted to a central computer system. Final step in the sequence is the delivery of computer reports to the customer's local Bank of Nova Scotia for pick-up the following working day.

Telaccount products include the following:

1/General Ledger Service

Balance Sheet
Income Statement
Trial Balance
General Ledger
General Journal
Cash Receipts Journal
Cash Disbursements Journal

2/Accounts Receivable Service

Aging Report
Customer Statements
Interim Account Status Report
Sales Journal
Subledger by Customer

3/Accounts Payable Service

Aging Report
Supplier Remittance Advice
Interim Account Status Report
Purchase Journal
Subledger by Vendor

A number of Industry Marketing products are available from Telaccount. All include a General Ledger service which provides the following: Balance Sheet, Cash Receipts Journal, Income Statement, Cash Disbursements Journal, General Ledger/Trial Balance and General Ledger. A number of optional reports and services are available with these products.

The Industry Marketing products currently available are: Standard Business System; Time Accounting Package; Property Management System; Nursing Homes System; Restaurant System; Construction System; Used Car Dealers System; Insurance Agencies System; and Client Accounting Package.

The entries keyed in today are available tomorrow in the form of daily proof lists, or working papers. Separate proof lists can be supplied for different types of data (cash disbursements, cash receipts, sales, purchases, for example). Or they can be consolidated by type of information.

Audit trails are provided with a complete record of all details entered into the system, and totals are provided for daily proofing. Input errors are identified by the system. All a customer has to do after checking a proof list is to key any correction into the telephone and pick up the corrected printout the next business day. Original errors never appear on the final reports.

A variety of management reports are available within two business days from period-end cutoff. These are custom-designed to meet a customer's particular accounting needs—whether monthly or on demand, in detail or on an exception basis.

Telaccounting can be adapted to any system to minimize changes in appearance of journals, ledgers and financial reports—and has the flexibility to modify a system as accounting needs change. Also, source documents never leave a customer's office.

Costs are based on the number of transactions. Also, there's no capital equipment involved, no depreciation or obsolescence of expensive bookkeeping or systems equipment, no space requirements, no maintenance contracts, no downtime for repairs, and no technical staff requirements.

By joining forces with Comtech, Telaccount is now able to offer its customers a family of terminals:

1/The office telephone.

2/The T-100 data entry terminal.

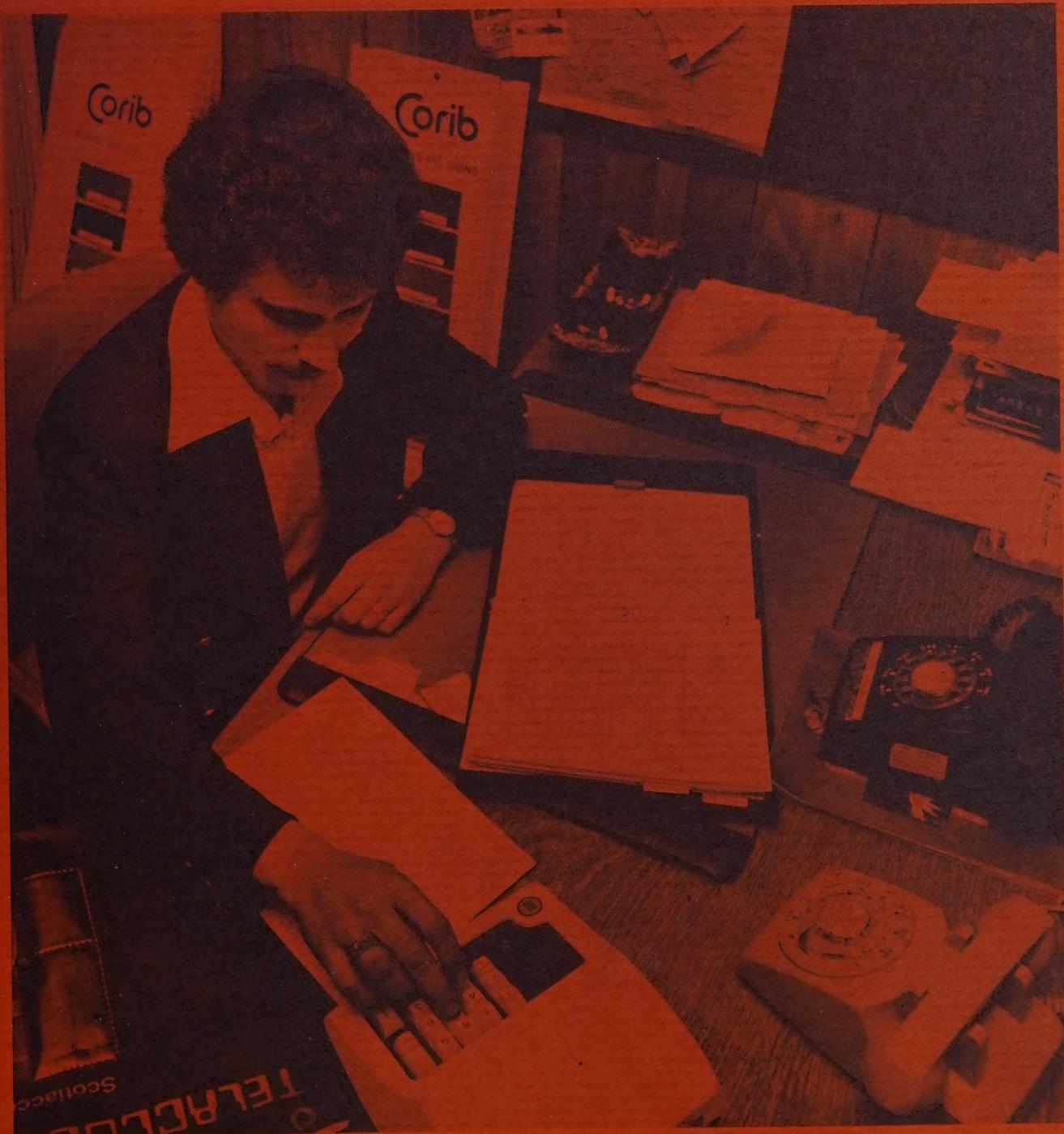
Many customers with Touchtone™ telephones who have a lot of daily entries to contend with prefer to use this terminal because it features an adding machine keyboard and a visual display of the input (see photo).

3/The VT52 DECscope video display terminal.

This is described in Section Two of this report but its advantages to Telaccount customers are many ...

- Fewer trips to the bank to pick up proof lists. Proof lists are needed only for verification of batch data transmission to Comtech's processing site.
- Improved turnaround because verification can be done the same day.
- Better work organization; verification can be done right after data input.
- Descriptive information can be entered through the terminal, thereby assisting on turnaround and eliminating all coding of data.
- The terminal provides the means to utilize Comtech's time-sharing packages (see Section Two).
- The terminal is expandable to include a slow-speed printer to do small on-site printing jobs, such as invoicing or word processing.

An employee of Corrugated Pipe Co. of Stratford,
Ont., one of our Telaccount customers, inputs
data on the T-100 Telaccount
data entry terminal.



2/Data centres/ Time-sharing

Data centres

Comtech's traditional products continue to be in strong demand. During the past year these product offerings have been extended geographically to include Ottawa and Vancouver, with the first sales having been made in Vancouver.

Payroll services

PAYMASTER™: This continues to be the largest producer of revenue and profit for the company. Aimed at Canada's largest companies—those with complex payroll requirements, many with multiple union arrangements—**PAYMASTER™** is successful because of the number of benefits and deductions it offers as well as comprehensive department reports and options, plus time-saving features such as bank reconciliation.

AUTOPAY™: Introduced in 1975 **AUTOPAY™** was designed to meet the specialized requirements of smaller companies. The major reasons for its excellent acceptance are the many features which allowed Comtech to penetrate specific market areas—the automotive, garment and hotel industries, for example.

Financial services

Financial Products continue to receive good market acceptance and one reason is that they're designed for both large and small companies—firms with subsidiaries or multiple offices or those with just a single location.

CASHMASTER™: The measure of a good accounts payable system is its ability to control all supplier invoices, take advantage of vendor discounts and issue cheques only when they're due (based on standard vendor terms). Secondly, these expenses should be distributed to the appropriate accounts at the correct periods.

CASHMASTER™ does all this and more. An automatic check which prevents the payment of duplicate invoices... cash requirements reporting, to aid customers with their cash flow planning... and a trial balance which gives an accurate and up-to-date picture of outstanding items, as well as all activities during the period, to assist in handling vendor inquiries and reconciling their accounts.

FINANCIALMAN™: Similarly, a good general ledger system should pick up the journal entries from the accounts payable system, produce source journals, provide a comprehensive audit trial, post and print the updated general ledger, and produce a trial balance.

But it's beyond this point of fundamental bookkeeping that **FINANCIALMAN™** really pays off, by means of considerable refinements to meet specialized financial reporting and budgeting needs. Regardless of industry, clients receive meaningful financial statements through the ability to assign their own report headings, account groupings, line descriptions, etc., to tailor the reports to their needs. It's the built-in flexibility possible with this type of reporting that appeals to clients, because the reports provide timely information for the management of their business.

Time-sharing services

Comtech's time-sharing services represent a delivery method as well as a new form of computing. The Sales Success™ system, described in detail in Section Three, is a typical example of the type of service available. An Accounts Receivable time-sharing package is also available. Currently being developed at the Research Centre in Ireland is an Order Entry/Invoicing time-sharing package which will be made available to Comtech customers during our 1979 fiscal year.

On-Line input

On-line input, initiated during 1978, is finding excellent acceptance from data centre customers as well as users of the time-sharing facilities.

Many data centre customers now have computer terminals in their offices. This allows Comtech to process their financial data within 24 hours, compared to the current pickup and delivery service of 24 hours to 48 hours plus. Also, source documents need never leave a customer's premises. With on-line input customers are able to control their own schedules.

Some multi-site customers send their documents to a central source for transcribing onto Comtech forms. With a terminal these remote sites are now able to input their own data—in their own time and at their own speed.

The ability to key data direct to Comtech's computers leaves less chance for human error, and the terminal allows customers to edit the data immediately. Most customers are finding that the intangible benefits resulting from fewer errors, easier balancing, faster period close-offs and less checking are immeasurable in terms of dollars and cents.

But the real payoff value is in the long term—using the terminal as a tool to access Comtech's computers and its new line of software products.

*This is part of the data entry section at Comtech's
Head Office.*



3/Specialized products

The 1977 annual report contained a two-page table which graphically illustrated Comtech's services /products under broad headings:

1/Batch processing.

2/On-line input.

3/On-line interactive service.

At that time not all these client options were available. Today they are and you can read about them in fuller detail in sections of this annual report. With this plateau achieved, Comtech is currently in the process of extending its products, with a greater emphasis on both Specialized Marketing products and Industry Marketing products (see Section One for details of latter).

While a number of new Specialized Marketing products are under development at the Research Centre in Ireland, the major contribution during 1978 was the introduction of an interactive computer package... Comtech's Sales Success™ system.

Comtech itself has been using the system successfully, in a batch mode, for its own sales force for the past four years.

Basically, the Sales Success™ system gives sales management a quick and easy method of storing and retrieving information. It gives all the sales facts while there is still time to act on them. It takes the guesswork out of sales management because daily controls allow for maximum productivity with minimum paperwork for management or sales personnel.

The system is designed to provide the sales department and management with information on the allocation of the company's time, money, personnel and resources. It does this by (1) providing the salesman with easily accessible information for his prospecting and follow-up requirements, thereby enabling him to spend more time selling instead of maintaining his own filing system, and by (2) providing management with a means to enquire into the activities of the sales force to measure the success of their personnel and products, thereby determining the market penetration by product and the cost effectiveness of selling to those markets.

Once set up, the Sales Success™ system is simplicity itself. A terminal and a printer in the client's sales office(s) is connected to one of Comtech's time-sharing computers across Canada. Any type of sales information can be displayed instantly on the terminal's display screen. Or printed in hard copy form on the printer.

The system stores sales data, using Comtech's SAGE™ data base, under four basic headings—Salesman, Prospect, Activity, Product—and from this data base a tremendous amount of inter-related sales information can be displayed on the screen, or a wide variety of reports can be immediately prepared by the system in any format the client wants.

A client sets up his own index, assigns his own unique numbers and passwords, and defines all activities within these four basic categories so that the system meets the specific needs of his sales operation.

The system then works automatically on instructions. Indexes are built-up cross-referencing the information entered so that data can be accessed through many routes, and accumulated for any later reports that might be required.

As far as daily operations are concerned the key input/output is the "turn up" card. Each card contains details on one prospect. These are usually called for at the beginning of each work day and distributed to the appropriate salesmen. Later, when a salesman has called on his prospect and entered his comments regarding that call on the

back of the "turn up" card, the card serves as the input to the system. Not only, then, is there constant updating of all aspects of sales but the "turn up" cards can automatically be produced when the next visit is due for a particular prospect. It's a sure-fire method of ensuring that a salesman is fully up-to-date on all aspects of his accounts, and it's a great assistance to them in preparing their daily itineraries. But, more importantly, a company doesn't lose its key sales data when it loses its salesmen.

Information from this and other input enables a great deal of data to be called up/printed for analysis purposes at any time... for example, effective use of time, analysis of potential markets, identification of competitors, evaluation of salesmen's quotas, analysis of salesmen's costs, measuring of success, and many other types of data that are not currently available without tremendous manual effort.

The Sales Success™ system has been in day-to-day operation for close to four years, but it's constantly being enhanced. One major feature, currently in the planning stage, is to use the system in conjunction with Comtech's proven Word Processing System—thereby providing a TOTAL SALES MANAGEMENT SYSTEM. This would complete the sales circle, providing sales organizations with that necessary independence from other company departments in conducting most of their day-to-day activities.

A final encouraging thought: Following installation of Comtech's Sales Success™ system a company should be able to hire a better calibre of salesman. Today's professional will immediately recognize the many benefits of the system.

Our new Sales Success™ system received an enthusiastic reception from the press. Here Comtech Director John Morand demonstrates on an interactive computer terminal how the system works. Paying attention, left to right, are: Heath Halliday, Comtech Director; Beverley Bleackley, Managing Editor of "ComputerData"; Allan Austin, Assistant Editor of "Office Equipment & Methods"; Harold Taylor, Editor/Publisher of "Sales & Marketing Management in Canada"; and Kathleen Kennedy, Associate Editor of "Canadian Datasystems".



Assets

	1978	1977
Current:		
Cash	\$ 68,708	\$ 312,086
Accounts receivable	1,119,042	586,857
Computer equipment at cost	—	170,222
Income taxes recoverable	72,025	—
Inventories, at cost	70,098	59,881
Prepayments and sundry assets	114,091	95,819
	1,443,964	1,224,865
Investments (Note 2)	303,364	129,287
Package programmes (Note 3)	824,133	593,714
Fixed (Note 4)	653,640	322,170
Other assets and deferred charges	750	750
Goodwill and excess of cost of investments in subsidiaries over net assets acquired	806,613	812,396
	807,363	813,146

On behalf of the Board:



John M. Plunkett
(Director)



Brian S. Johnson
(Director)

\$ 4,032,464	\$ 3,083,182
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See accompanying Notes and Summary of Significant Accounting Policies.

Consolidated Balance Sheet—June 30, 1978

Liabilities

	1978	1977
Current:		
Bank indebtedness (Note 5)	\$ 200,000	\$ —
Accounts payable and accrued liabilities	857,440	329,699
Income taxes payable	—	94,350
Deferred income taxes	213	25,301
Current maturities on long-term debt (Note 6)	107,000	107,000
	1,164,653	556,350
Long-term debt (Note 6)	400,000	207,000
Deferred income taxes	153,488	137,682
	1,718,141	901,032

Shareholders' Equity

Capital stock:

Authorized:

14,490 5% First preference shares, \$10 par value, cumulative,
redeemable at \$10.20 a share
157,482 3% Second preference shares, \$1 par value, non-
cumulative, redeemable at par
2,000,000 Common shares, \$1 par value

Issued:

4,490 5% Preference shares, less 200 shares purchased by the company during the year	43,870	44,900
55,482 3% Preference shares	55,482	55,482
885,713 Common shares	885,713	885,713
	885,065	986,095

Contributed surplus

Retained earnings

	101,000	101,000
	1,228,258	1,095,055
	2,314,323	2,182,150

\$4,032,464

\$3,083,182

Consolidated Statement of Income

Year ended June 30, 1978

	1978	1977
Revenues	\$ 4,364,916	\$ 3,735,449
Costs and expenses	4,282,894	3,354,353
 Income before taxes	 82,022	 381,096
Provision for income taxes:		
Current (recovery)	(98,951)	134,715
Deferred	(9,282)	44,798
	 (108,233)	 179,513
 Income before extraordinary item	 190,255	 201,583
Extraordinary item:		
Tax reduction due to application of tax losses forward	—	39,239
 Net income	 \$ 190,255	 \$ 240,822
 Earnings per share:		
Income before extraordinary item	\$.21	\$.23
Net income21	.27
Average number of shares outstanding	885,713	885,713

Consolidated Statement of Retained Earnings

Year Ended June 30, 1978

	1978	1977
Retained earnings at beginning of year	\$ 1,095,055	\$ 876,689
Net income	190,255	240,822
	 1,285,310	 1,117,511
Dividends paid	57,052	22,456
 Retained earnings at end of year	 \$ 1,228,258	 \$ 1,095,055

See accompanying Notes and Summary of Significant Accounting Policies.

Consolidated Statement of Changes in Financial Position

Year ended June 30, 1978

1978**1977**

Financial resources were provided by:

Income before extraordinary item	\$ 190,255	\$ 201,583
Add items not requiring a current outlay of working capital:		
Depreciation of fixed assets	135,693	113,785
Amortization of package programmes	191,467	130,071
Provision for non-current deferred taxes	15,806	47,911
Amortization of excess of cost of investments	5,783	5,783
Working capital provided from operations exclusive of extraordinary item	\$ 10,004	499,133
Tax reduction due to application of tax losses forward		39,239
Increase in long-term debt	300,000	200,000
	\$ 39,004	738,372

Financial resources were used for:

Purchase of Comtech First Preference shares	1,030	—
Purchase of fixed assets	467,163	86,671
Purchase of investments	174,077	129,287
Package programme development costs	421,886	240,000
Retirement of long-term debt	107,000	7,000
Payment of dividends	57,052	22,456
	1,228,208	485,414
Increase (decrease) in working capital	(389,204)	252,958
Working capital at beginning of year	668,515	415,557
Working capital at end of year	\$ 279,311	\$ 668,515

See accompanying Notes and Summary of Significant Accounting Policies.

AUDITORS' REPORTTo the Shareholders of
Comtech Group International Limited

We have examined the consolidated balance sheet of Comtech Group International Limited and its subsidiaries as at June 30, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1978 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LIPTON, WISEMAN, GREENSPOON & ALTBAUM,
September 19, 1978 Chartered Accountants.

Notes to Consolidated Financial Statements

Year ended June 30, 1978

1. Business Acquisitions:

During the year, the company purchased the operating assets of Telaccount Ltd., constituting a computer timesharing business. The purchase price of \$100,000 was paid in cash and allocated as follows:

Inventory and supplies	\$ 24,701
Leasehold improvements	17,689
Furniture and equipment	57,610
	\$100,000

The operations of Telaccount have been included in these financial statements from May 1, 1978, the date of acquisition.

2. Investments:

	Percentage Equity	June 30, 1978 Cost	June 30, 1978 Market Value
Selkirk Securities Limited	42.9%	\$300,000	\$280,802
Other		3,364	3,745
		\$303,364	\$284,547

Selkirk Securities Limited is an investment holding company which, as at June 30, 1978, owns 42.1% of the issued common shares of Comtech Group International Limited, and 31.3% of the outstanding common shares of Dataline Systems Limited. The market value of Comtech's investment in Selkirk has been calculated based on the quoted market values of Selkirk Investments.

Comtech accounts for these investments by the cost method. The majority interest in Selkirk is owned by York Centre Corporation.

3. Package Programmes:

The following is a summary of package programmes:

	1978	1977
Balance at beginning of year	\$ 593,714	\$ 483,785
Package programme development costs capitalized during the year	421,886	240,000
	1,015,600	723,785
Amortization of package programmes	191,467	130,071
Balance at end of year	\$ 824,133	\$ 593,714

4. Fixed assets:

Fixed assets are summarized as follows:

	1978	1977		
	Cost	Accumulated Depreciation	Net	Net
Computer Equipment	\$ 955,729	\$693,372	\$262,357	\$190,186
Magnetic Tapes	46,632	43,204	3,428	6,425
Furniture and Office Equipment	247,713	119,369	128,344	57,843
Leasehold Improvements	253,248	123,366	129,882	62,002
Building	114,303		114,303	
Vehicles	31,478	16,152	15,326	5,714
	\$1,649,103	\$995,463	\$653,640	\$322,170

5. Bank Indebtedness:

Bank indebtedness is secured by a general assignment of book debts.

6. Long-term debt:

Bank loan, evidenced by a registered debenture, bearing interest at 2% above the prime commercial lending rate repayable \$25,000 quarterly commencing August, 1978	\$500,000
Balance due on acquisition of subsidiary without interest repayable \$3,500 semi-annually to June 30, 1979	7,000
	<hr/>
Current maturities	\$507,000
	<hr/>
	107,000
	<hr/>
	\$400,000

The bank loan is secured by a first fixed charge on the company's computer equipment and a general assignment of book debts.

The payments in each of the next five years required to meet aggregate principal retirements of the long-term indebtedness as at June 30, 1978 are as follows:

1979	\$107,000
1980	100,000
1981	100,000
1982	100,000
1983	100,000
	<hr/>
	\$507,000

7 Contingent Liability:

In January, 1978, the company was ordered to pay \$60,000 plus interest and costs pursuant to a judgement handed down by the Quebec Superior Court. The judgement resulted from an action initiated by Aquila BST (1974) Limited, relating to the purchase by Comtech of the operating assets of the Toronto data centre of Aquila, in March, 1975. Comtech has appealed the decision, and in the opinion of counsel, has a reasonable chance of being successful.

These financial statements do not reflect any liability with respect to the January, 1978 judgement. If the liability had been recorded, working capital would have been reduced by the amount of the judgement, current year's earnings would have been reduced by \$1,500, being the annual amortization of the \$60,000, plus interest applicable to the current year plus costs; and retained earnings would have been further reduced by a prior period adjustment reflecting accumulated amortization of \$3,375 and interest relating to previous fiscal years.

8. Commitments:

The companies are committed to annual realty and equipment rentals of approximately the following amounts:

1979	\$462,000
1980	163,000
1981	119,000
1982	69,000
1983-1986	29,000

9. Statutory information:

The aggregate direct remuneration paid or payable by the companies to the Directors and Senior Officers of the company was \$226,981 — eight individuals (\$201,698 in 1977 — eight individuals).

Total interest expense for the year on debt initially incurred for a period in excess of one year was \$31,500.

Summary of Significant Accounting Policies

(i) Principles of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned except for Commercial Computer Services Inc. which is 99.5% owned.

(ii) Fixed assets:

The company depreciates its fixed assets on a straight-line basis over their estimated useful lives. Total depreciation during 1978 was \$135,693 (\$113,785 in 1977).

(iii) Package programmes:

It is the company's policy to capitalize the costs of package programme development and to amortize such costs on a straight-line basis over a five-year period, commencing in the six-month period following incurrence of such costs.

(iv) Goodwill and excess of cost of investments in subsidiaries over net assets acquired:

The excess of cost of investment in subsidiaries over equity in net assets acquired relating to those companies purchased on or before April 1, 1974 is not being amortized since, in the opinion of management, it has continuing value. As required by an accounting recommendation of the Canadian Institute of Chartered Accountants, goodwill and the excess cost of investments in subsidiaries over equity in net assets acquired relating to companies purchased after April 1, 1974 are being amortized; the company is using a straight-line basis for amortization over 40 years. The amount so amortized in 1978 is \$5,783 (\$5,783 in 1977).

(v) Licensing revenues:

The company has entered into contracts whereby it licenses package programmes to other entities. Revenue from such contractual arrangement takes the form of either a monthly usage charge or a lump sum payment. In the latter situation the licensee is granted a perpetual lease right to the particular programme.

Revenues from contracts which generate a monthly usage charge are recorded on a monthly basis. Revenues from perpetual leases are recorded on the dates of effective execution of contracts, provided the lump sum price is due no later than one year after execution. Also, at the date of execution of such contracts, the company accrues an estimate of its costs to be incurred in connection with completion of the installation of the system.

(vi) Income taxes:

The company follows the tax allocation method of accounting. Under this method timing differences between the amount of income reported for tax purposes and the amount of accounting income result in provisions for deferred income taxes.

